Practice Problems

CATEGORY: COST APPROACH

TOPIC: EXTERNAL OBSOLESCENCE

Problem – What is the amount of external obsolescence to be applied to the building?

The subject property is a 200-unit apartment complex that had a gross monthly rent of $1,100 per unit. The property across the street recently was approved for and developed with a landfill. The apartment building income decreased by 20%. In this market area, buildings like the subject property typically have a contributory value of 75% of the total property value. The gross income multiplier for this market is 7.85 based on similar properties.

Problem Solution – NEXT PAGE

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APPRAISAL TOOLBOX
EDUCATIONAL RESOURCES, ROBUST TOOLS & MORE

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Problem Solution

Gross income before landfill: 200 units x $1,100 per unit x 12 months = $2,640,000
Gross income after landfill: 200 units x $880 per unit x 12 months = $2,112,000
Loss of income attributed to the landfill: $528,000
Loss of total property value attributed to the landfill: $528,000 x 7.85 = $4,144,800
Loss of value to the building: $4,144,800 x .75 = $3,108,600